

1998 Country Reports On Economic Policy and Trade Practices: Argentina

**ARGENTINA**

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

**Key Economic Indicators**

(Billions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998
<i>Income, Production, and Employment:</i>			
GDP (At Current Prices) 2/	291	323	339
Real GDP Growth (pct)	4.3	8.6	5.0
GDP by Sector (pct):			
Agriculture	7.6	7.3	7.2
Manufacturing	24.7	24.7	24.8
Mining	3.0	3.0	2.9
Services	38	38	38.1
Government	9.1	10.3	10.8
Per Capita GDP (US\$)	8,300	9,100	9,570
Labor Force (Millions)	14.0	14.0	14.3
Unemployment Rate (pct)	17	16.1	13.2
<i>Money and Prices (annual percentage growth):</i>			
Money Supply (M2) 3/	19.8	26.5	10
Consumer Price Inflation 3/	0.5	0.3	1.0
Exchange Rate (Peso/US\$)	1	1	1
<i>Balance of Payments and Trade:</i>			
Total Exports FOB	23.7	26.2	26.5
Exports to U.S. 4/	2.3	2.2	2.5
Total Imports CIF	23.7	30.4	32.5
Imports from U.S. 4/	4.5	5.8	6.5
Trade Balance	0.6	-4	-6
Balance with U.S. 4/	-2.2	-3.6	-4
External Public Debt	87	100	108
Fiscal Deficit/GDP (pct)	-1.8	-1.4	-1.2
Current Account Deficit/GDP (pct)	-1.6	-2.8	-3.7

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Debt Service Payments/GDP (pct)	7.2	7.1	7.2
Gold and Foreign Exchange Reserves	16	20	24

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1/ Figures for 1998 are embassy estimates.

2/ Nominal GDP is virtually the same in dollars or pesos. In April 1991, when the convertibility plan took effect, the peso was tied to the U.S. Dollar at the rate of one to one.

3/ End of period.

4/ Source: U.S. Department of Commerce and U.S. Census bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through October.

### *1. General Policy Framework*

President Carlos Menem's far-reaching reform program, which began in earnest in 1991, has revitalized Argentina's economy. Despite a sharp recession in 1995 due primarily to the Mexican peso crisis, real GDP growth averaged over 6 percent a year from 1991-1997. In 1998, real GDP is expected to grow by more than 5 percent, down from 8.6 percent growth the previous year. Inflation remains low with the annual rate of increase for consumer prices in 1998 expected to be one percent -- a major accomplishment given Argentina's bouts with hyperinflation during the last decade. A stable exchange rate and reductions in trade barriers resulted in a boom in imports, particularly from the United States, during 1991-94. In 1998, Argentina's trade deficit with the United States is projected to be about four billion dollars. Argentina is expected to incur a six billion dollar overall trade deficit in 1998, reflecting strong demand for imports generated by rapid economic growth.

The number of financial institutions in Argentina dropped from over 200 in December 1994 to about 135 by October 1998. In many respects, Argentina's macroeconomic prospects are better than at any time since December 1994. Argentina remains one of the hemisphere's most promising emerging markets.

Argentina's consolidated public sector budget is expected to run a deficit in 1998 of about 4.5 billion dollars -- equal to approximately 1.5 percent of GDP. Tax collection has improved, but evasion is a major problem for the government. Still, impressive economic growth and increases in consumption have boosted tax receipts in 1997 and 1998.

### *2. Exchange Rate Policy*

The Central Bank of Argentina controls the money supply through the buying and selling of dollars. Under the Convertibility Law of 1991, the exchange rate of the Argentine Peso is fixed to the dollar at the rate of one to one. This rate is expected to remain unchanged in the medium term. Argentina has no exchange controls. Customers may freely buy and sell currency from

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banks and brokers at market prices.

### *3. Structural Policies*

The Menem administration's reform program has made significant progress in transforming Argentina from a closed, highly regulated economy to one based on market forces and international trade. The government's role in the economy has diminished markedly with the privatization of most state firms. The authorities have also eliminated price controls on almost all goods and services. Still, recurring trade deficits and continued high unemployment have led the government to take some ad hoc protectionist measures.

For example, in 1994 authorities imposed increased "specific" duties on almost all textile and footwear imports, followed in 1995 by increased duties on apparel imports. The government later put in place burdensome certificate-of-origin and labeling requirements on imports of these, and other unrelated products. In February 1997, Argentina repealed the existing "specific" duties on footwear -- only to immediately reinstate them under a safeguard investigation. The specific duties were maintained under a final safeguard order issued in September 1997. The United States requested formation of a WTO panel to review Argentina's footwear and textile regimes, as well as the three-percent statistical tax in early 1997. After a WTO panel found that the textile regime and statistical tax violate Argentina's WTO commitments, Argentina cut the statistical rate tax to .5 percent, and set a 35 percent ad valorem cap on the textile duties.

Argentina, Brazil, Paraguay And Uruguay established the Southern Cone Common Market (MERCOSUR) in 1991, and on January 1, 1995, formed a partial customs union with a Common External Tariff (CET) covering approximately 85 percent of trade. The CET ranges from zero to 20 percent. In 1998, MERCOSUR members hiked the CET by three points for most products. The increase is scheduled to expire in 2000. Initially, the government exempted some products from the CET, such as capital goods, informatics and telecommunications, to help support the modernization of the industrial infrastructure. However, in August 1996 tariffs on these items were increased to the MERCOSUR level. As a result, many non-MERCOSUR products entering Argentina now face higher tariffs. Chile signed a free trade agreement with MERCOSUR, effective October 1, 1996, but will not participate in the CET. Bolivia also entered into a similar pact on April 30, 1997. MERCOSUR is also discussing the prospect of a free trade agreement with the Andean community.

Argentina signed the Uruguay Round agreements in April 1994, congress ratified the agreements at the end of 1994, and Argentina became a founding member of the WTO on January 1, 1995.

### *4. Debt Management Policies*

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Argentina's public debt maturities are mostly concentrated in the longer term. Debt increased in 1998, rising to almost \$110 billion. Argentina is expected to make total debt service (principal and interest) payments of about \$15 billion per year through 1999. Interest payments on public debt in 1998 will represent only about two percent of GDP. The turmoil in international financial markets triggered by Russia's devaluation in August 1998 has complicated Argentine access to foreign capital, but there is no indication Argentina will be unable to meet its short term financing needs. Still, Argentina remains vulnerable to financial contagion from Brazil.

### *5. Significant Barriers to U.S. Exports*

One of the key reforms of the Menem administration has been to open the Argentine economy to international trade. The government abolished the import licensing system in 1989 and in 1990 cut the average tariff from nearly 29 percent to less than 10 percent. However, MERCOSUR common external tariff rates are slightly higher, so that Argentina's average tariff is now closer to 14 percent. In August 1996, Argentina raised the tariff on capital goods -- which account for over 40 percent of U.S. exports to Argentina -- from 10 to 14 percent to boost revenues.

**Barriers to U.S. Exports:** Despite the generally open market for imports, the authorities occasionally erect protectionist barriers, such as the increase in "specific" duties applied to textiles and footwear in January 1994. In May 1996 the government issued a resolution requiring local generation of a majority of cable TV channels carried by cable and pay television operators in Argentina. The resolution also obliges all operators to register their programming with a government regulatory body. U.S. companies fear the measure will limit the entrance of new foreign channels and programming, but it has had little impact to date on their operations.

Argentina also protects the automobile assembly industry through a combination of quotas and heavy tariffs. Nevertheless, the number of foreign-manufactured vehicles on the roads is increasing because of heavy demand that outstrips local production. The government plans to revise the present auto protection scheme by 2000, when a common MERCOSUR auto policy is scheduled to take effect.

**Standards:** Argentina generally recognizes U.S. and European standards. However, as the government and its MERCOSUR partners gradually establish a more structured and defined standards system, the standards requirements are becoming progressively more complex, particularly for medical products. Under the WTO agreement on technical barriers to trade, Argentina established an "inquiry point" to address standards-related inquiries. While this inquiry point exists formally at the Direccion General de Industria, it is not fully functional at present.

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**Services Barriers:** In January 1994, the authorities abolished the distinction between foreign and domestic banks. U.S. banks are well represented in Argentina and are some of the more dynamic players in the financial market. U.S. insurance companies are active in providing life, property and casualty, and workers compensation insurance. The privatization of pension funds has also attracted U.S. firms.

**Investment Barriers:** There are very few barriers to foreign investment. Firms need not obtain permission to invest in Argentina. Foreign investors may wholly own a local company, and investment in shares on the local stock exchange requires no government approval. There are no restrictions on repatriation of funds.

A U.S.-Argentina Bilateral Investment Treaty came into force on October 20, 1994. Under the treaty, U.S. investors enjoy national treatment in all sectors except shipbuilding, fishing and nuclear power generation. An amendment to the treaty removed mining, except uranium production, from the list of exceptions. The treaty allows arbitration of disputes by the international center for the settlement of investment disputes or any other arbitration institution mutually agreed by the parties. Several U.S. firms have invoked the treaty's provisions in on-going disputes with Argentine national or provincial authorities over the last year.

**Government Procurement Practices:** Argentina is not a signatory to the WTO Government Procurement Agreement, although "Buy Argentine" practices have been virtually abolished. Argentine sources will normally be chosen only when all other factors (price, quality, etc.) are equal.

**Customs Procedures:** Customs procedures are cumbersome and time-consuming, thus raising the cost for importers. Installation of an automated system in 1994 has eased the burden somewhat. The government is resorting more frequently to certificate-of-origin requirements and reference prices to counter underinvoicing and "social" dumping, primarily from East Asia. In 1997, the government merged the customs and tax authorities to boost revenue collection and improve efficiency. It instituted a preshipment inspection system in November 1997 to verify the price, quality and quantity of imports. The system is being implemented by six private firms.

### *6. Exports Subsidies Policies*

As a WTO member, Argentina adheres to WTO subsidies obligations. It also has a bilateral agreement with the United States to eliminate remaining subsidies provided to industrial exports and ports located in the Patagonia region. Nevertheless, the government retains minimal supports, such as reimbursement of indirect tax payments to exporters. The government also

1998 Country Reports On Economic Policy and Trade Practices: Argentina maintains an industrial specialization program which allows certain industries that boost their exports to report a comparable amount of imports at a reduced tariff. The program will end in the year 2000.

### *7. Protection of U.S. Intellectual Property*

Argentina belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Argentina is a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, Nairobi Treaty, Film Register Treaty, and the Universal Copyright Convention. In 1998, the U.S. Trade Representative maintained Argentina on the "Special 301" Priority Watch List. Argentina's lack of patent protection for pharmaceutical products has consistently been a contentious bilateral issue and in 1997 cost Argentina 50 percent of its benefits under the U.S. Generalized System of Preferences (GSP).

Patents: After a three-year conflict between the Argentine Executive and Congress over the issue of patent protection for pharmaceutical products, the Executive issued a March 1996 decree that improves earlier Argentine patent legislation, but provides less protection than that originally proposed. This decree authorizes the National Institute for Intellectual Property (INPI) to provide pharmaceutical patent protection starting in November 2000. However, there is concern that the government will ultimately delay implementation until 2005 (the TRIPS Agreement allows developing country members that did not previously offer patent protection for pharmaceutical and agrochemical products until January 1, 2005 to implement this protection). The decree does not provide patent protection for products under development, and contains ambiguous language on parallel imports and compulsory licenses. For example, the decree bans parallel imports but allows the import of products that have been licitly placed in commerce in a third country. Compulsory licenses can be awarded in cases of anti-competitive practices or for failure to work a patent.

The decree also does not meet the concerns of the U.S. pharmaceutical industry. In December 1996, the Argentine Congress passed legislation that fails to provide exclusive protection for confidential data submitted by pharmaceutical and agrochemical companies for approval of new products by regulatory authorities. While the government is currently finalizing the 1996 law's implementing regulations, it is unlikely that the government will address U.S. concerns about the law, which permits Argentine competitors to rely on data submitted for product registration in Argentina, the United States, and other countries.

Copyrights: Argentina's Copyright Law, enacted in 1933, appears to be adequate by international standards. An executive decree extended the term of protection for motion pictures from 30 to 50 years after the death of the copyright holder. As in many countries, video piracy is a serious problem. Efforts are underway to combat this, including arrests, seizure of pirated

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material, and introduction of security stickers for cassettes. In October 1998, the Argentine Congress enacted legislation criminalizing software piracy. The law closes an important gap in Argentina's protection of intellectual property rights. Still, a cumbersome judiciary and lack of police resources continue to hamper enforcement efforts.

Trademarks: Trademark laws and regulations in Argentina are generally good. The key problem is a slow registration process, which the government has worked to improve.

Trade Secrets: Although Argentina has no trade secret law as such, laws on contract, labor, and property have recognized and encompassed the concept. Penalties exist under these statutes for unauthorized revelation of trade secrets.

Semiconductor Chip Layout Design: Argentina has no law dealing specifically with the protection of layout designs and semiconductors. Although existing legislation on patents or copyrights could cover this technology conceivably, this has not been verified in practice. Argentina has signed the WIPO treaty on integrated circuits.

## *8. Worker Rights*

*a. The Right of Association:* All Argentine workers except military personnel are free to form unions. Union membership is estimated at 30-40 percent of the workforce. Unions are independent of the government and political parties, although most union leaders are affiliated with President Menem's Justicialist Party. Unions have the right to strike, and strikers are protected by law. Argentine unions are members of international labor associations and secretariats and participate actively in their programs.

*b. The Right to Organize and Bargain Collectively:* Argentine law prohibits anti-union practices. The trend continued towards bargaining on a company level, in contrast to negotiating at the national level on a sectoral basis, but the adjustment has not been easy for either management or labor. Both the federal government and a few highly industrialized provinces are working to create mediation services to promote more effective collective bargaining and dispute resolution.

*c. Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor, and there were no reports of such incidents during 1998.

*d. Minimum Age for Employment of Children:* The law prohibits employment of children under 14, except in rare cases where the Ministry of Education may authorize a child to work as part of a family unit. Minors aged 14 to 18 may work in a limited number of job categories, but not more than six hours a day or 35 hours a week. The law is effectively enforced except in some

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isolated rural areas where government monitoring capabilities are thin.

e. *Acceptable Conditions of Work:* The national monthly minimum wage is \$200. Federal labor law mandates acceptable working conditions in the areas of health, safety and hours. The maximum workday is eight hours, and the workweek is limited to 48 hours. The government has enacted reforms aimed at giving small and medium enterprises greater flexibility in the management of their personnel. The government is also striving to modernize the system of workers compensation. Argentina has well-developed health and safety standards, but the government often lacks sufficient resources to enforce them.

f. *Rights in Sectors with U.S. Investment:* Argentine law does not distinguish between worker rights in nationally owned enterprises and those in sectors with U.S. investment. The rights enjoyed by argentine employees of U.S. owned firms in Argentina equal or surpass argentine legal requirements.



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**Extent of U.S. Investment in Selected Industries** -- U.S. Direct Investment Position Abroad  
on an Historical Cost Basis -- 1997

(Millions of U.S. Dollars)

Category	Amount
Petroleum	1,427
Total Manufacturing	4,017
Food & Kindred Products	1,014
Chemicals & Allied Products	1,563
Primary & Fabricated Metals	401
Industrial Machinery and Equipment	24
Electric & Electronic Equipment	(1)
Transportation Equipment	345
Other Manufacturing	(1)
Wholesale Trade	506
Banking	1,181
Finance/Insurance/Real Estate	1,337
Services	711
Other Industries	588
<b>TOTAL ALL INDUSTRIES</b>	<b>9,766</b>

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.